

## Revenue Update

Following is a point-in-time snapshot of where General Fund revenues stand during the current fiscal year. While long-term projections cannot be based on one or two months of data, this update provides some context for cash receipts in December and January. Once all General Fund revenue data for January are received, Finance will issue its monthly revenue bulletin in the coming days.

Based on cash reporting by the Controller, tax receipts for the largest three revenue sources for the state — personal income tax, sales tax and corporation tax — are expected to come in more than \$700 million below projections in December and January combined. Personal Income Tax (PIT) and Corporation Tax receipts are approximately \$600 million and \$150 million below projections, respectively. Sales and Use Tax receipts came in approximately \$50 million above forecast.

Taxpayers' fourth estimated payments for 2011 account for almost the entire shortfall in personal income tax receipts. Estimated payments for the first three quarters of the year reflected substantial year-over-year growth — 23.6 percent, 20.4 percent, and 6.7 percent, respectively. However, estimated payments in December and January were down over 13 percent. This pattern is very atypical. In fact, a similar pattern has only occurred once in the last twenty years.

While concerning, it is not clear what the lower December and January receipts or the atypical pattern of personal income tax receipts in 2011 means for final payments in April, or for the revenue that the state should expect for the 2012 tax year. It is possible that taxpayers did not pay sufficient cash through their estimated payments — as was the case in 2007 — and will make it up with strong final payments in April. Alternatively, it could be that capital gains were lower in 2011 than was forecast. Such a reduction could be the result of taxpayers, because of market conditions in late 2011, delaying their sales of stock from late 2011 into early 2012. If that is the case, the current revenue shortfall could be largely eliminated through strong estimated payments in April and June. However, it is also possible that the capital gains forecast was too high and that the dropoff will not be offset by additional gains in 2012. If this is the case, the capital gains forecast will likely be reduced for 2012 and subsequent years as well. The bottom line is that possible explanations for the lower receipts are numerous, but the actual cause is very uncertain.

One quarterly payment — even when there is a significant variance between actual and forecast revenue — is just one data point, insufficient information to draw conclusions or arrive at informed judgments of what is to come. Given the history of tax receipts over the last five years, it is clear that the variance of actual revenue relative to forecast revenue for January personal income taxes is frequently not a good predictor of the end-of-the-year revenues. The chart below tracks the cumulative variance in personal income tax receipts by month from December through June for three of the past five years. In each of these years, the early months were not good predictors for actual revenues. 2007 started with a very large negative variance in January. This negative variance grew through March. Strong April receipts erased almost all of the negative variance. Just the opposite happened in 2010. PIT revenue started the year with a very strong positive variance, over \$1 billion. But a weak April more than erased the positive

variance by the end of the year. Finally, in 2008, revenue for the first three months of the year were very close to forecast. But strong revenues in April, as well as in May and June, left revenue almost \$2 billion over the original forecast.

As previously noted, it is too early to tell what revenues will be for the 2011 tax year and how they will affect the revenue forecast for 2012 and future years. The recent receipts are concerning and underscore the need for a responsible and balanced budget that includes a prudent reserve. The Department of Finance will continue to monitor tax revenues and economic data. Based on cash receipts, an updated economic forecast and other data, the department will prepare an updated revenue forecast for the May Revision.

